



The accounting officer  
Govan Mbeki Local Municipality  
Private Bag X1017  
Secunda  
2302

30 November 2016

Reference: 03014REG15-16

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Govan Mbeki Local Municipality for the year ended 30 June 2016**

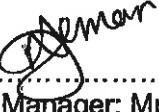
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa [section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)].
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.



Yours sincerely

Signed



.....  
**Senior Manager: Mpumalanga**

Enquiries: Nkosana Zondi  
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# **Auditor's report**

Govan Mbeki Local Municipality

**30 June 2016**

# **Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Govan Mbeki Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Govan Mbeki Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual accounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Govan Mbeki Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

8. As disclosed in note 50 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during the year ended 30 June 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

### **Material losses**

9. As disclosed in note 58 to the financial statements, material losses of 253 051 127 units (2014-15: 192 431 461 units) were incurred as a result of electricity distribution losses, which represented 45% (2014-15: 44%) of the total electricity purchased.

### **Material impairments**

10. As disclosed in notes 13 and 14 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R811 768 638 (2014-15: R706 606 715), which represented 80% (2014-15: 84%) of the total consumer debtors. The contribution to the provision for debt impairment was R105 161 923 (2014-15: R112 744 964).

### **Additional matter**

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## Report on other legal and regulatory requirements

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. I performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - KPA 2: physical infrastructure and energy efficiency on pages ... to ...
  - KPA 3: services and customer care on pages ... to ...
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected development priorities are as follows:

### **Physical infrastructure and energy efficiency**

#### **Reliability of reported performance information**

18. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for the reported achievements against the planned targets of 33% of the indicators.

### **Services and customer care**

#### **Reliability of reported performance information**

19. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for the reported achievements against the planned targets of important indicators.

## **Additional matters**

20. I draw attention to the following matters:

### **Achievement of planned targets**

21. Refer to the annual performance report on pages ... to ... and ... to ... for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on reliability of the reported performance information in paragraphs 18 and 19 of this report.

### **Adjustment of material misstatements**

22. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for services and customer care. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information.

### **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Strategic planning and performance management**

24. The local community was not afforded the opportunity to comment on the final draft of the integrated development plan before adoption, as required by section 42 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) and municipal planning and performance management regulations 9, 13(1), 13(4)(c) and 15(3).

### **Annual financial statements, performance report and annual report**

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

26. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

27. The oversight report adopted by the council on the 2014-15 annual report was not made public, as required by section 129(3) of the MFMA.

## **Procurement and contract management**

28. Contracts were awarded to bidders based on preference points that had not been calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) and its regulations.
29. Thresholds for local content on designated sectors' procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.

## **Expenditure management**

30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
31. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
32. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Consequence management**

34. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).
35. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).

## **Internal control**

36. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

37. The municipality did not implement effective procedures, processes and monitoring mechanisms to prevent errors in the financial statements and performance report as well as non-compliance with laws and regulations. Although similar findings were raised in prior years and there were interactions with management in this regard, management did not implement sufficient controls to improve the audit outcome.

## **Financial and performance management**

38. Adequate monitoring processes were not in place to prevent non-compliance and findings on performance management reports.
39. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
40. Transactions were not always regularly reconciled to prevent errors in the annual financial statements.

*Auditor-General*

Mbombela

30 November 2016



*Auditing to build public confidence*

